

**OLYMPIC PIPE LINE COMPANY**

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July 11, 2003

Honorable Greg Nickels
Mayor
City of Seattle
700 Fifth Avenue, Suite 3900
Seattle, WA 98104-5043

Re: Olympic Pipe Line Company
Operation of Seattle Lateral

Dear Mayor Nickels:

I am writing in response to your letter of June 27 where you request that Olympic advise you by July 11 of its intentions regarding the hydrostatic testing and inspections the City demands as a condition to renew its franchise agreement regarding Olympic's Seattle lateral. As you know, the Seattle lateral is an integral part of Olympic's petroleum product transportation system, without which Seattle area businesses and residents would need to rely on barges and tanker trucks to transport the gasoline and diesel used by the Seattle area residents.

We ask that you reconsider the conditions that Seattle seeks to impose on Olympic's operations. In making this request, we acknowledge and applaud your concern for the safety and well-being of the citizens of Seattle. Olympic itself places health, safety and environmental protection above all else regarding the operation of its pipeline system. Olympic has focused on developing and implementing a comprehensive safety and integrity program, representing a continuous, long-term commitment to pipeline safety. Therefore, we ask that you consider the following:

- 1) The pipeline operating through Seattle has been internally inspected four times using three different technologies since 2000. A fifth internal inspection is scheduled for this Fall, 2003. This rigorous testing schedule not only meets, but in many respects exceeds, the new federal and state requirements for pipeline safety.
- 2) The Federal Office of Pipeline Safety (OPS) and the Washington State Utilities and Transportation Commission (WUTC) Pipeline Safety Division have overseen all of these inspections and safety improvements over the past several years and have approved the current operations and Safety and Integrity Program that Olympic has instituted. Olympic holds frequent meetings with the OPS and WUTC and other interested parties to update the progress on our integrity program.
- 3) Olympic has chosen to inspect its system using new state-of-the art technologies. Hydrostatic testing is an alternative method of testing the pipeline's integrity. However, Olympic believes the new technologies offer a better view of its system's integrity while offering an environmentally friendly method of testing. Hydrostatic testing involves the use of hundreds of thousands of gallons

of water, which become contaminated and then must be stored, transported, and treated before the water can be used again. It also unnecessarily puts a significant strain on the system.

4) Olympic and its shareholders have invested about \$230 million dollars in the overall pipeline system over the last several years. We believe these investments have made Olympic one of the most thoroughly inspected and safest pipeline systems in the country.

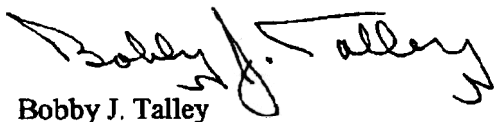
5) Olympic's Seattle lateral has a built-in safety factor for the pipeline running through the City. The current derated maximum allowable operating pressure of the Olympic pipeline section running through Seattle is 1152 psi. However, the line running through the City operates at a current range of only 50 psi to 550 psi. Thus, the pipeline is operating with an added safety factor of 50% under the current maximum operating pressures.

Finally, please consider both the practical and the legal ramifications of the fact that Olympic's operations are overseen and highly regulated by OPS and by WUTC. The pipeline has been inspected annually by these agencies, and the most recent inspection was completed the week of May 5, 2003. As a result of the recent Consent Decree entered into by Olympic, the company will now also be under the scrutiny of an Independent Monitoring Contractor. This Independent Monitor's job will be to verify Olympic's compliance with all applicable regulations and with the Injunctive Relief Programs, including additional internal inspections, 3rd party damage prevention, equipment inspection and repairs, management of change, and employee training.

For the foregoing reasons, we believe the conditions that Seattle seeks to place on Olympic's operations are practically unnecessary, economically burdensome, and legally unenforceable. We hope you will reconsider your current demand that Olympic shut down the Seattle Lateral by August 26 if it does not agree to the City's conditions and continue to work constructively with Olympic toward a reasonable and practical franchise agreement. To that end, we propose that the City of Seattle meet personally with representatives from Olympic, OPS, and WUTC to review and address the city's safety concerns and demands.

In order to ensure orderly business decisions by our shippers who rely on the Seattle Lateral, we anticipate that the City will not take action to shutdown this line prior to the August 26 deadline identified in your letter (copies of that letter have been provided to Olympic's shippers). We look forward to your favorable response to our offer to meet with Olympic's regulators in the immediate future to discuss the City's issues.

Sincerely,



Bobby J. Talley
President, Olympic Pipe Line Company